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Summary:

Oakland, California; Appropriations; General Obligation

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Credit Profile		
Oakland GO		
Long Term Rating	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long-term rating and underlying rating (SPUR) on Oakland, Calif.'s general obligation (GO) bonds and on GO bonds issued by the Oakland Joint Powers Financing Authority on behalf of the city, based on the application of our local GO criteria released Sept. 12, 2013. In addition, Standard & Poor's affirmed its 'A+' long-term rating and SPUR on pension obligation bonds (POBs) and lease revenue bonds for which the city is the obligor. The outlook is stable.

Revenue from unlimited ad valorem taxes levied on taxable property within the city secures the city's GO bonds. The Alameda County Board of Supervisors has the power and obligation to levy these taxes at the city's request for the bonds' repayment. The POBs are payable from any legally available revenue of the city, including special ad valorem tax override revenue that the city may levy through 2026 to fund the city's Police and Fire Retirement System (PFRS) obligations; revenue from these special ad valorem taxes at the fiscal 2014 level is equal to 0.9x maximum annual debt service, which occurs in fiscal 2023. The city's lease revenue bonds are secured by lease payments made by the city, as lessee, to the authority, as lessor.

The rating reflects our assessment of the following factors for the city:

- We consider the city's economy very strong. Located in the core of the San Francisco Bay Area, the 399,300-resident city's overlapping county, which had an unemployment rate of 7.4% in 2013, is recovering from the Great Recession, with the number of its employed residents growing in 45 of the 46 months through June 2014, although the city's rate tends to exceed the national rate. We project the city's per capita effective buying income at 118% of the U.S. in 2018 and estimate its per capita market value at $119,500 for fiscal 2015. Although the city is built out, we understand that it has been participating in a strong regional housing market, and preliminary fiscal 2015 assessed valuation (AV) figures suggest a second consecutive year with AV growth of more than 5%.
- We view the city's management conditions as strong with "good" financial practices under our financial management assessment (FMA) methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize them or monitor all of them regularly. We revised our FMA to "good" from "strong" as a result of our understanding that the city has continued to use financial forecasting in its budget decisions but updates forecasts less than annually, and as a result of clarification that the city's debt management policy does not provide guidance as to maximum debt levels relative to the city's population or tax base. Continuing strengths of the city's policies and practices, in our view, include a robust analysis of internal trends and the use of external inputs to develop budgets, a practice of quarterly financial and investment updates, an annually updated five-year capital plan, and a formal reserve policy of 7.5% of expenditures for emergencies applicable to its main

operating fund (on a budgetary basis). We understand that the city is developing language for a second reserve for economic cycles for which the city has budgeted to set aside $2 million, or about 0.4% of general fund expenditures for fiscal 2015.

- In our opinion, the city's budgetary flexibility is strong, with available reserves at 13.9% of expenditures for fiscal 2013 ($80.2 million), up slightly from 13.2% in fiscal 2012. (Both ratios reflect our analytic adjustments to include most transfers-out in our calculation of expenditures as a result of their recurring nature.) Preliminary performance data for fiscal 2014 suggest that the city's financial position may have inched up, and the city's adopted budget indicates that its main operating fund on a budgetary basis of accounting (its "general purpose fund") will stand at about 17% of expenditures at the end of fiscal 2015. The city lacks significant taxing flexibility under state law but in some cases has secured voter overrides for specific services, such as a 2004 measure that generates the equivalent of 3% of expenditures for public safety. This measure will likely be up for renewal on the November 2014 ballot.
- The city's budgetary performance is weak, in our view, with the city showing fiscal 2013 deficits of 2% of expenditures (inclusive of our adjustments to consider most transfers-out as expenditures) for the general fund and for total governmental funds (including an adjustment to remove one-time expenditures). Based on preliminary fiscal 2014 actual results organized similarly to generally accepted accounting principles (GAAP) reporting, we anticipate that general fund performance will be close to balanced. For fiscal 2015, although the city's budgetary basis presentation suggests a deficit of 5% of expenditures for the general purpose fund, we believe surplus general fund operations are possible based on prior experience of the city's general fund performance on a GAAP basis tending to be much stronger than its general purpose fund on a budgetary basis. Supporting this view are the latest budgetary basis figures for fiscal years 2014 and 2015, showing the city's general purpose fund balance rising to the equivalent of 17% of expenditures compared with 11% under the city's 2014 actual results on a budgetary basis of accounting. Likely to support performance, in our view, is a positive trend in tax revenue overall, with a preliminary 5.9% increase fiscal AV increase likely to positively affect the city's largest tax revenue source, property taxes. We also believe that the city's intention to increase police services, which have been under judicial oversight in recent years, is likely to fuel expenditure growth.
- Supporting the city's finances is liquidity that we consider very strong, with fiscal 2013 ending total government available cash at 38% of total governmental fund expenditures. The city's cash position at the end of 2013 stood at 2.4x total governmental funds debt service. We believe the city has strong access to external liquidity given its issuances of POBs, lease revenue bonds, and GO bonds in the past 20 years.
- In our opinion, the city's debt and contingent liability profile is very weak. Total governmental funds debt service was 16% of total governmental funds expenditures for fiscal 2013 and net direct debt was 145% of total governmental funds revenue. Supporting credit quality, in our view, is the city's rapid principal amortization, with 72% of principal retired in the next 10 years. Management reports that the city is considering issuing all or a portion of its $64 million in authorized but unissued "Measure DD" GO debt and a small amount of lease debt during the next two years.
- The city has approximately $30 million in alternative financing that does not represent a source of contingent liquidity risk, in our view. However, we have included in our ratios contingent debt associated with a joint powers authority created by the city and its overlapping county to fund a professional football arena because the bonds, which are a joint and several obligation of the city and county, have not been self-supporting. We have excluded the authority's debt with a similar security associated with the financing of a professional basketball arena because the facility's operations have been sufficient to cover debt service.
- The city and its employees participate in four major defined benefit pension plans, two of which are closed and managed by the city and two of which are active and managed by the California Public Employees Retirement System (CalPERS). If we include its other postemployment benefits liability, we calculate the city's postemployment carrying charges at 16.7% of total governmental funds expenditures. The CalPERS plans are the city's largest

liability; this statewide pooled system had overall funded ratio of 79% as of its latest valuation date. The city's closed system for non-public-safety employees is funded at 123% which allows the city to not make contributions to this liability. By contrast, concurrent to its issuance of POBs in 2012, the city decided to suspend through fiscal 2017 its annually required contributions to its closed public safety plan, whose latest funded ratio stood at 68% after the debt contribution to the plan's assets. Aiding the city's effort to support debt payments associated with or direct contributions to its closed public safety plan is a special ad valorem property tax that represents about 1% of total governmental fund expenditures. We believe that these revenues will likely support all or virtually all of the city's POB debt service through the decade.

- We consider the Institutional Framework score for California municipalities with a federal single audit requirement strong.

Outlook

The stable outlook reflects our view of the city's positive economic momentum and strong budgetary flexibility. We do not anticipate lowering the rating in the next two years unless the city experiences deterioration among multiple factors that we view as important to credit quality, such as an operating deficit larger than in fiscal 2013 that substantially erodes the city's available reserves and liquidity position. We could raise the rating during our two-year outlook horizon if budgetary performance improves and we come to believe that the city is likely to sustain stronger budgetary flexibility, particularly if we come to view the reserve policy under development as providing a framework for sustaining stronger reserves through low points in the economic cycle.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 8, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of August 13, 2014)		
Oakland taxable POB		
Long Term Rating	A+/Stable	Affirmed
Oakland POB (wrap of insured) (MBIA) (National) (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oakland POB (wrap of insured) (MBIA, National & Assured Gty) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oakland GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 13, 2014) (cont.)		
Oakland POB		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oakland Jt Pwrs Fing Auth , California		
Oakland, California		
Oakland Jt Pwrs Fing Auth (Oakland GO Bnd Prgrm) (wrap of insured) (AMBAC & BHAC) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Oakland Jt Pwrs Fing Auth (Oakland) (City Of Oakland Go Bnd Pgrm) (wrap of insured) (AMBAC & ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Oakland Jt Pwrs Fing Auth (Oakland) lse rev bnds (Oakland Admin Buildings) 2008B (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oakland Jt Pwrs Fing Auth (Oakland) POB (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Oakland Jt Pwrs Fing Auth (Oakland) (City Go Bnd Pgrm)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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